

CAPSTEAD MORTGAGE CORP
Form DEF 14A
March 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under Rule 14a-12

Capstead Mortgage Corporation

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held April 24, 2013

To the stockholders of

CAPSTEAD MORTGAGE CORPORATION:

The annual meeting of stockholders of Capstead Mortgage Corporation, a Maryland corporation, will be held at 8401 North Central Expressway, Suite 220, Dallas, Texas on Wednesday, April 24, 2013 beginning at 9:00 a.m., Central Time, for the following purposes:

- (1) To elect eight directors to hold office until the next annual meeting of stockholders and until their successors are elected and qualified;
- (2a) To consider advisory approval of our compensation philosophy;
- (2b) To consider advisory approval of the compensation granted to our executive officers in 2012;
- (3) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013.

In the discretion of the proxies, the meeting may include the transacting of any other business that may properly come before the annual meeting of stockholders or any adjournment of the annual meeting.

**** PLEASE VOTE NOW ****

YOUR VOTE IS IMPORTANT

**** PLEASE VOTE NOW ****

Stockholders of record at the close of business on February 25, 2013 will be entitled to notice of and to vote at the annual meeting of stockholders. **It is important your shares are represented at the annual meeting regardless of the size of your holdings.** Whether or not you plan to attend the annual meeting in person, please vote your shares as promptly as possible via the internet, by telephone, or by signing, dating and returning your proxy card. **Voting promptly saves us the expense of a second mailing or telephone campaign, and reduces the risk that the annual meeting is adjourned because of the lack of a quorum.** Voting via the internet or by telephone helps reduce postage and proxy tabulation costs. See the Voting section of this proxy statement for a description of voting methods.

Stockholders please note that New York Stock Exchange regulations require you to vote this proxy in order for your shares to be counted. Your broker will not have any discretion to vote your shares on your behalf for these matters without direction from you.

PLEASE DO NOT MAIL YOUR PROXY CARD IF YOU VOTE BY INTERNET OR TELEPHONE.

By order of the board of directors,

Phillip A. Reinsch

Secretary

8401 North Central Expressway, Suite 800

Dallas, Texas 75225-4404

March 15, 2013

CAPSTEAD MORTGAGE CORPORATION

8401 North Central Expressway, Suite 800

Dallas, Texas 75225-4404

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

To Be Held April 24, 2013

This proxy statement, together with the proxy, is solicited by and on behalf of the board of directors of Capstead Mortgage Corporation, a Maryland corporation, for use at the annual meeting of stockholders to be held on April 24, 2013 at 8401 North Central Expressway, Suite 220, Dallas, Texas beginning at 9:00 a.m., Central time. The board is requesting you to allow your shares to be represented and voted at the annual meeting by the proxies named on the proxy card. We, our, us, and Capstead each refers to Capstead Mortgage Corporation. A notice regarding the internet availability of this proxy statement and our 2012 annual report will first be mailed to stockholders on or about March 15, 2013. This proxy statement will be available on our website at that time. See the Notice of Electronic Availability of Proxy Materials section of this proxy statement for more information.

At the annual meeting, action will be taken to elect eight directors to hold office until the next annual meeting and until their successors are elected and qualified; to hold advisory votes on executive compensation; and to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013. In the discretion of the proxy holders, proxies may be voted on any other business that may properly come before the annual meeting or any adjournment of the annual meeting.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words believe, anticipate, expect, estimate, intend, will be, will likely continue, will likely result, phrases of similar meaning. Forward-looking statements are based largely on the expectations of management and are subject to a number of risks and uncertainties including, but not limited to, the following:

changes in general economic conditions;

fluctuations in interest rates and levels of mortgage prepayments;

the effectiveness of risk management strategies;

the impact of differing levels of leverage employed;

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liquidity of secondary markets and credit markets;

the availability of financing at reasonable levels and terms to support investing on a leveraged basis;

the availability of new investment capital;

the availability of suitable qualifying investments from both an investment return and regulatory perspective;

changes in legislation or regulation affecting Fannie Mae, Freddie Mac and similar federal government agencies and related guarantees;

deterioration in credit quality and ratings of existing or future issuances of Fannie Mae, Freddie Mac or Ginnie Mae securities;

changes in legislation or regulation affecting exemptions for mortgage REITs from regulation under the Investment Company Act of 1940; and

increases in costs and other general competitive factors.

In addition to the above considerations, actual results and liquidity are affected by other risks and uncertainties which could cause actual results to be significantly different from those expressed or implied by any forward-looking statements included herein. It is not possible to identify all of the risks, uncertainties and other factors that may affect future results. In light of these risks and uncertainties, the forward-looking events and circumstances discussed herein may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Forward-looking statements speak only as of the date such statements are made and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, readers of this document are cautioned not to place undue reliance on any forward-looking statements included herein.

GENERAL INFORMATION ABOUT VOTING

Solicitation of Proxies

The enclosed proxy is solicited by and on behalf of our board. We will bear the expense of soliciting proxies for the annual meeting, including the mailing cost. In addition to solicitation by mail, our officers or a company of our designation may solicit proxies from stockholders by telephone, e-mail, facsimile or personal interview. Our officers receive no additional compensation for such services.

We intend to request persons holding common shares in their name or custody, or in the name of a nominee, to send a notice of internet availability of proxy materials to their principals and request authority for the execution of the proxies. We will reimburse such persons for their expense in doing so. We will also use the proxy solicitation services of Georgeson Inc. For such services, we will pay a fee that is not expected to exceed \$6,500 plus out-of-pocket expenses.

Voting Securities

Our common shares are our only equity securities entitled to general voting rights. Each common share entitles the holder to one vote. As of February 25, 2013, there were 95,533,208 common shares outstanding and entitled to vote for matters coming before the annual meeting. Only stockholders of record at the close of business on February 25, 2013 are entitled to vote at the annual meeting or any adjournment of the meeting.

Voting

If you hold our common shares in your own name as a holder of record, you may instruct the proxies to vote your shares through any of the following methods:

via the internet by logging on to www.eproxy.com/cmo to gain access to the voting site and to authorize the proxies to vote your shares;

by calling our transfer agent Wells Fargo at 1-800-560-1965 and following the prompts; or

by signing, dating and mailing the proxy card in the postage-paid envelope provided.

Our counsel has advised us these three voting methods are permitted under the corporate law of Maryland, the state in which we are incorporated.

The deadline for internet and telephone voting is 12:00 p.m. (noon), Central Time, on April 23, 2013. If you prefer, you may bring your proxy to the annual meeting to vote your shares in person.

If a broker, bank or other nominee holds our common shares on your behalf, the voting instructions above do not apply to you. You will receive voting instructions from them.

Counting of Votes

A quorum will be present at the annual meeting if the holders of a majority of the outstanding shares entitled to vote are present, in person or by proxy. If you have returned valid voting instructions or if you hold your shares in your own name as a holder of record and attend the annual meeting in person with your proxy, your shares will be counted for the purpose of determining whether there is a quorum. If a quorum is not present, the annual meeting may be postponed or adjourned until a quorum has been obtained.

The affirmative vote of a majority of all the votes cast at the annual meeting is required to elect each nominee to our board (proposal 1), to approve the non-binding resolutions regarding the compensation of our executive officers (proposals 2a and 2b), and to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013 (proposal 3). Unless otherwise required by Maryland or other applicable law, the affirmative vote of a majority of all the votes cast is also required to approve any other the matter brought to a vote at the meeting.

Brokers holding shares beneficially owned by their clients do not have the ability to cast votes with respect to any non-routine matter, including the election of directors (proposal 1) or any compensation-related proposals (proposals 2a or 2b), unless the brokers have received instructions from the beneficial owners of the shares. It is therefore important that you provide instructions to your broker so that your shares will be counted in these matters.

Brokers may vote at their discretion on all routine matters (i.e. the ratification of the appointment of our independent registered public accounting firm). Broker non-votes occur when a broker, bank or other nominee holding common shares on your behalf votes the shares on some matters but not others. We will treat broker non-votes as common shares present and voting for quorum purposes and votes not cast in any non-routine matter, including proposals 1 and 2.

Abstentions, broker non-votes and withheld votes will have no effect on the outcome of the votes on proposals 1 through 3, assuming that a quorum is obtained.

If you sign and return your proxy card without giving specific voting instructions, your shares will be voted as recommended by our board.

Right to Revoke Proxy

You must meet the same deadline when revoking your proxy as when voting your proxy. See the **Voting** section of this proxy statement for more information. If you hold our common shares in your own name as a holder of record, you may revoke your proxy instructions through any of the following methods:

by notifying our secretary in writing of your revocation before your shares have been voted;

by signing, dating and mailing a new proxy card to Wells Fargo;

by calling Wells Fargo at 1-800-560-1965 and following the prompts;

via the internet by logging on to www.eproxy.com/cmo and following the prompts; or

by attending the annual meeting with your proxy and voting your shares in person.

If our common shares are held on your behalf by a broker, bank or other nominee, you must contact them to receive information on revoking your proxy.

Notice of Electronic Availability of Proxy Materials

On or about March 15, 2013, we mailed our stockholders a notice with instructions on accessing these materials and voting online as permitted by the Securities and Exchange Commission (SEC). If you received a notice, you will not receive a hard copy of the proxy materials unless you

request them. If you would like to receive a hard copy of our proxy materials, follow the instructions on the notice.

Multiple Stockholders Sharing the Same Address

SEC rules and Maryland corporate law allow for householding, which is the delivery of a single copy of an annual report and proxy statement, or notice of electronic availability, to any household at which two or more stockholders reside, if it is believed the stockholders are members of the same family. Duplicate mailings are eliminated by allowing stockholders to consent to such elimination or through implied consent if a stockholder does not request continuation of duplicate mailings. Depending upon the practices of your broker, bank or other nominee, you may be required to contact them directly to discontinue duplicate mailings to your household. If you wish to revoke your consent to householding, you must contact your broker, bank or other nominee. If you hold our common shares in your own name as a holder of record, householding will not apply to you.

Extra copies of our annual report and proxy statement may be obtained free of charge by sending a request to Capstead Mortgage Corporation, Attention: Stockholder Relations, 8401 North Central Expressway, Suite 800, Dallas, Texas, 75225-4404. You can also obtain copies on our website at www.capstead.com or by calling us toll-free at (800) 358-2323, extension 2339.

Voting Results

Voting results will be announced at the annual meeting and a detail of the voting results will be published in Form 8-K filed with the SEC within four business days of the annual meeting.

PROPOSAL ONE ELECTION OF DIRECTORS

One of the purposes of the annual meeting is to elect eight directors to hold office until the next annual meeting and until their successors have been elected and qualified. In order to understand each nominee's qualifications to serve as a director, it is important to first review our investment strategy:

We operate as a self-managed real estate investment trust (REIT) for federal income tax purposes and earn income from investing in a leveraged portfolio of residential mortgage pass-through securities consisting almost exclusively of adjustable-rate mortgage securities issued and guaranteed by government-sponsored entities, either Fannie Mae or Freddie Mac, or by an agency of the federal government, Ginnie Mae.

Set forth below for each director nominee is the name, age, principal occupation, the date elected to our board, board committee memberships held, the number of common shares beneficially held, directorships held with other public companies and certain other biographical information necessary to provide you with a more complete understanding of the experiences, qualifications, attributes or skills of the nominees.

Also provided below is a brief discussion of our considerations for recommending each of the nominees for director. For discussion of beneficial ownership, see the Security Ownership of Management and Certain Beneficial Owners section of this proxy statement. If any nominee becomes unable to stand for election as a director, an event we do not presently expect, the proxy will be voted for a replacement nominee if our board designates one.

Our board of directors is currently comprised of nine members, two of whom were appointed to our board in 2012 after the annual meeting. Our outside legal counsel recommended Ms. Michelle P. Goolsby to fill one of two vacancies created by the increase in board size from seven to nine members during the year, and one of our non-management board members recommended Mr. Jack Bernard to fill the other vacancy. Our governance & nomination committee reviewed the qualifications, conflicts of interest and ability to act on behalf of the stockholders for each of Ms. Goolsby and Mr. Bernard and has nominated each of them to serve on our board of directors. Mr. Paul M. Low is not standing for re-election at the annual meeting; however, he will continue to serve on our board until that time. Our board does not currently plan to fill this vacancy and will reassign his committee seat at the board meeting following the annual meeting of stockholders. Effective with our annual meeting of stockholders our number of directors will be reduced to eight.

The board recommends a vote FOR all nominees.

Nominees for Director

JACK BERNARD*

Executive Director, Renewable Funding, LLC

Director since September 2012

Common shares beneficially owned: 2,000

Age 58

Mr. Bernard is an executive director and member of the board of Renewable Funding LLC, a private company focused on the development of innovative finance and technology solutions to clean energy, since 2008. From 2005 to 2007 Mr. Bernard was managing director of OceanTomo responsible for an intellectual property fund and from 2003 to 2004 was managing director for Coastal Capital responsible for an intellectual property sale/leaseback fund. From 1993 to 2002 Mr. Bernard held senior roles at Dresdner RCM Capital Management including managing mortgage, asset-backed and corporate investments held in domestic institutional portfolios, managing a closed end fixed-income fund (NYSE: RCS), and other global credit investment responsibilities. Mr. Bernard worked at Merrill Lynch, Pierce, Fenner & Smith Incorporated from 1984 to 1993 in the mortgage securities trading division with responsibilities for originating, trading and hedging collateralized mortgage obligations, as well as managing a proprietary position in mortgage derivatives.

Consideration for Recommendation: Mr. Bernard has extensive experience in capital markets and investment management activities having managed and traded mortgage securities and other fixed-income positions for major investment banking firms and he continues to be involved in these markets and various real estate-related activities on a personal and professional basis.

JACK BIEGLER*

Private Investments

Chairman of the Board

Chairman: Executive Committee

Member: Audit and Compensation Committees

Director since June 2005

Common shares beneficially owned: 45,500

Age 69

Mr. Biegler has served as our chairman of the board since April 2009. Mr. Biegler served as president of Ellison Management LLC from 1996 until his retirement in 2009. From 1980 until its sale in 1996, Mr. Biegler served as chief financial officer (CFO) of Ray Ellison Industries, which was involved in the development and construction of single-family homes in San Antonio, Texas.

Consideration for Recommendation: Mr. Biegler worked as a CFO in the single-family homebuilding business for a significant portion of his career and he continues to be involved in various real estate-related activities on a personal basis. Recognizing the depth of his accounting, financial and real estate-related experience, Mr. Biegler serves as our chairman of the board, chairman of the executive committee and as a member of the audit and compensation committees.

Nominees for Director

MICHELLE P. GOOLSBY*

Partner, Greenmont Capital Partners II

Member: Governance & Nomination Committee

Director since June 2012

Common shares beneficially owned: 3,000

Age 55

Ms. Goolsby has been a partner and investment committee member for Greenmont Capital Partners II, a private equity firm, since 2008. From 1998 to 2008 Ms. Goolsby served as executive vice president of Dean Foods Company where she was responsible for corporate development, legal, corporate governance, ethics and compliance, government relations and corporate affairs. Prior to 1998 Ms. Goolsby provided legal representation for public and privately-held entities, including real estate investment trusts, in connection with securities offerings, financings, mergers, acquisitions and divestitures. Ms. Goolsby serves as a director of WhiteWave Foods Company (NYSE: WWAV), a consumer packaged food and beverage company, and SACHEM, Inc., a privately-held chemical science company.

Consideration for Recommendation: Ms. Goolsby brings a diverse background of executive leadership experience, and has worked extensively with boards on matters including risk management and corporate governance. In addition, she has significant experience in corporate financings and other capital markets transactions, including transactions on behalf of public and privately-held real estate entities.

ANDREW F. JACOBS

President and Chief Executive Officer

Member: Executive Committee

Director since July 2003

Common shares beneficially owned: 551,768

Age 53

Mr. Jacobs has served as our president and chief executive officer (CEO) since 2003 and served in various other executive positions with us since 1988. Mr. Jacobs is a member of the Executive Board of the National Association of Real Estate Investment Trusts (NAREIT) and previously served as founding chairman of NAREIT 's Council of Mortgage REITs. Mr. Jacobs is a member of the Executive Committee of the Chancellor 's Council of the University of Texas System and the Executive Council of the Real Estate Finance and Investment Center and the Department of Accounting Advisory Council at the University of Texas at Austin. Mr. Jacobs is a certified public accountant and holds a Certificate of Director Education from the National Association of Corporate Directors (NACD).

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Consideration for Recommendation: *Mr. Jacobs has served in an executive capacity for us since 1988. Recognizing the depth of his experience in the mortgage REIT industry over an extended period of time, Mr. Jacobs serves as our president and CEO and as a member of the executive committee.*

Nominees for Director

GARY KEISER*

Private Investments

Mr. Keiser served as an audit partner at Ernst & Young LLP from 1980 until his retirement in 2000. Mr. Keiser began his career with Ernst & Young LLP in 1967.

Chairman: Audit Committee

Member: Compensation Committee

Director since January 2004

Common shares beneficially owned: 45,323

Age 69

Consideration for Recommendation: Mr. Keiser worked in the public accounting profession for his entire career, focusing a significant amount of his time on real estate and real estate finance clients. Recognizing the depth of his accounting, mortgage banking and real estate experience, Mr. Keiser serves as the chairman of our audit committee and as a member of our compensation committee.

CHRISTOPHER W. MAHOWALD*

Managing Partner, RSF Partners

Member: Governance & Nomination Committee

Director since June 2005

Mr. Mahowald is the managing partner of RSF Partners, a series of real estate private equity funds. Prior to forming RSF in 1997, Mr. Mahowald was a partner with the Robert M. Bass Group where he was a founding principal in several real estate-related private equity funds, including the Brazos Fund, the Lone Star Opportunity Fund and Colony Capital. Prior to joining the Bass Group he was a principal for the Trammell Crow Company. Mr. Mahowald serves on the board of American Security Products, a private firm. Mr. Mahowald previously served on the boards of two publicly traded real estate finance companies, IMPAC Commercial Holdings and Omega Healthcare (NYSE: OHI).

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Common shares beneficially owned: 115,659

Age 51

Consideration for Recommendation: Mr. Mahowald has worked in or managed a number of different real estate finance and equity funds over his career. Recognizing the depth of this experience, Mr. Mahowald serves as a member of the governance & nomination committee.

Nominees for Director

MICHAEL G. O NEIL*

Private Investments

Until retiring in 2001, Mr. O Neil was a director in the investment banking division of Merrill Lynch, Pierce, Fenner & Smith Incorporated, an investment banking firm, where he had been employed since 1972. In 2009, Mr. O Neil retired from the board of directors at Massively Parallel Technologies, Inc., a private software technology company specializing in high-speed computing, though he continues to serve on their advisory board. He also served as a director for MobilePro Corp. from 2004 to 2008, a then publicly traded company.

Chairman: Governance & Nomination Committee

Member: Audit and Executive Committees

Director since April 2000

Common shares beneficially owned: 61,329

Age 70

Consideration for Recommendation: Mr. O Neil worked for a major investment banking firm his entire career, focusing on debt and equity transactions involving U.S. and foreign corporations and U.S. Treasury and mortgage-related securities and various real estate-related entities. He represented his firm as lead underwriter for our initial public offering in 1985. Recognizing the depth of his capital markets experience, and knowledge of a broad spectrum of security types, Mr. O Neil serves as the chairman of our governance & nomination committee and as a member of the audit and executive committees.

MARK S. WHITING*

Chairman and Chief Executive Officer,

Drawbridge Realty Trust, LLC

Mr. Whiting has served as Chairman and CEO of Drawbridge Realty Trust, LLC, a private commercial property investment firm based in San Francisco, California since its formation in January 2012. Prior to that Mr. Whiting was the managing partner of Drawbridge Partners, LLC, the predecessor company, since 1998. Mr. Whiting served as CEO and director of TriNet Corporate Realty Trust, Inc., a NYSE-listed commercial property REIT, from 1996 through 1998 and served as president, chief operating officer and director of TriNet from 1993 to 1996. Mr. Whiting currently serves on the board of The Marcus & Millichap Company, a private real estate investment brokerage firm. Mr. Whiting is a member of the Stanford University Real Estate Council and the board of trustees of the Cate School and previously served as a member of the Stanford University Athletic Board.

Chairman: Compensation Committee

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Director since April 2000

Common shares beneficially owned: 50,800

Age 56

Consideration for Recommendation: Mr. Whiting served as the CEO of a publicly traded REIT and continues to be involved in various real estate-related activities on a personal basis. Recognizing the depth of his real estate-related experience and having served as a CEO of a public company, Mr. Whiting serves as the chairman of our compensation committee.

* Indicates an independent director in compliance with Section 303A.02 Independence Tests of the New York Stock Exchange (NYSE) Listed Company Manual and our Board of Directors Guidelines. See the Board Member Independence section of this proxy statement for more information.

BOARD OF DIRECTORS AND COMMITTEE INFORMATION

Our business and affairs are managed under the direction of our board. Members of our board are kept informed of our business through discussions with our chairman, CEO and other executive officers, by reviewing materials provided to them, and by participating in meetings of our board and its committees.

During the year ended December 31, 2012, our board held four regular meetings and nine special meetings. In accordance with our Board of Directors Guidelines, directors are expected to attend all meetings of our board and meetings of committees on which they serve. Each director standing for election attended more than 75 percent of the meetings of our board and committees on which he or she served that were held during the period for which such person was a director.

Attendance at Annual Meeting

In keeping with our Board of Directors Guidelines, directors are expected to attend our annual meeting in person. All of our sitting directors were in attendance at the 2012 annual meeting on April 25, 2012.

Board Member Independence

Section 303A.02 Independence Tests of the NYSE Listed Company Manual outlines the requirements for a director to be deemed independent by the NYSE, including the mandate that our board affirmatively determine that each of our directors has no material relationship with us that would impair independence. To assist in ascertaining the independence of our directors, each director completed a qualification questionnaire in December 2012. They were also asked to affirm compliance with all of the independence standards set forth in the NYSE Listed Company Manual and our Board of Directors Guidelines. Further, directors were asked to verify their interest in serving on our board in 2013 and their availability and capability to serve, as well as confirm they meet additional qualifications required for continued service as outlined in our Board of Directors Guidelines.

After receipt of all completed qualification questionnaires, our governance & nomination committee members were given a copy of each questionnaire, along with information regarding each director's ownership in our equity securities. The committee briefed our board on the results of their review, noting that the son of one of our directors went to work for our independent accounting firm in a nonpartner position, and in a different city, during 2012 with no involvement with our audit. At the conclusion of this process, our board affirmatively determined no director, with the exception of Mr. Jacobs who is our CEO, has a material relationship with us that would impair his or her independence, and each director meets all of the independence requirements set forth in the NYSE Listed Company Manual and our Board of Directors Guidelines. Therefore, our board is comprised of a majority of independent directors, as required in Section 303A.01 Independent Directors of the NYSE Listed Company Manual.

Our Board of Directors Guidelines are found on our website at www.capstead.com by clicking Investor Relations, Accept and Governance Documents. Any reference to an independent director herein infers compliance with the NYSE independence tests and our Board of Directors Guidelines.

Charitable Contributions

At no time during the preceding three years have we made a contribution to a charitable organization where one of our independent directors served as an executive officer.

Board Member Compensation

Compensation of our independent directors for the fiscal year ended December 31, 2012 is outlined in the following table.

Director Compensation*

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ^(a)	Option Awards (\$) ^(b)	All Other Compensation (\$) ^(c)	Total (\$)
Jack Bernard	20,000	28,780	-	-	48,780
Jack Biegler	69,000	53,840	-	-	122,840
Michelle Goolsby	31,000	42,060	-	-	73,060
Gary Keiser	63,000	53,840	-	-	116,840
Paul M. Low	42,000	53,840	-	-	95,840
Christopher W. Mahowald	57,000	53,840	-	-	110,840
Michael G. O Neil	58,000	53,840	-	-	111,840
Mark S. Whiting	53,000	53,840	-	-	106,840

* Columns for Non-Equity Incentive Plan Compensation and Change in Pension Value and Nonqualified Deferred Compensation Earnings have been omitted because they are not applicable.

(a) Amount represents the aggregate grant date fair value of stock awards based on the closing market price of our common shares on the date of grant, which is recognized as expense on a straightline basis over the related requisite service period. As of December 31, 2012, our directors each held 4,000 unvested stock awards other than Mr. Bernard and Ms. Goolsby, who were appointed to our board during 2012, who held 2,000 and 3,000 unvested stock awards, respectively.

(b) As of December 31, 2012, our directors held exercisable option awards aggregating: 10,000 shares for Mr. Keiser; and 15,000 shares each for Messrs. Biegler, Low, Mahowald, O Neil and Whiting. No option awards were granted during the three years ending December 31, 2012.

(c) Excluded from this tabulation are dividends paid on unvested stock awards of \$5,960 to each of directors for the 2012 fiscal year, other than Mr. Bernard and Ms. Goolsby, who received \$1,320 and \$3,180, respectively. These dividends are excluded because stock awards are valued for compensation cost purposes based on the closing market price of our stock on the date of grant, which price factors in market expectations for future dividends in its valuation.

Narrative Disclosure to Director Compensation Table

Our independent directors receive base compensation for their representation on our board at an annualized rate of \$40,000 and an annual stock award of 4,000 shares of common stock. The 2012 stock awards will vest in full on April 15, 2013. The chairman of the board receives an additional \$20,000 annually, the chair of our audit committee receives an additional \$15,000 annually, and the chairs of our compensation and governance & nomination committees each receive an additional \$10,000 annually. In 2012, Mr. Mahowald received an additional \$15,000 for serving as the chairman of an ad hoc director search committee. Committee members receive \$1,000 per committee meeting attended. All of our directors receive reimbursement for travel costs and expenses. Employee directors do not receive compensation for serving on our board.

The board believes a meaningful portion of our independent directors' total compensation should be paid in the form of equity awards in order to better align these directors' long-term interests to those of our stockholders. Equity awards granted may include (i) stock awards, (ii) option awards or (iii) other incentive-based awards as defined in the Amended and Restated 2004 Flexible Long-Term Incentive Plan.

Stock awards granted to our independent directors provide for vesting in equal annual installments over a requisite service period established by our board, typically one year (or less in the case of directors appointed to the board after an annual stockholder meeting). Directors are considered owners of the shares and entitled to vote and receive all dividends and any other distributions declared on the shares prior to vesting. Dividends or other distributions on these shares shall not exceed those available to our common stockholders. Unvested shares cannot be sold, transferred or otherwise disposed of for any

purpose other than to us. Unvested shares will revert to us in the event a director leaves us for any reason, including termination of directorship by reason of voluntary or involuntary discharge, disability or retirement, except in the event of a change in control, dissolution or liquidation of Capstead, or death of the grantee, in which case all outstanding unvested shares will automatically vest in full.

Option awards granted to our independent directors provide for vesting in equal annual installments over the requisite service period established by our board, typically one year, and expire at the earliest of (i) ten years after date of grant, (ii) six months, or the remaining term of the option if earlier, after the optionee's termination of directorship by reason of death, resignation, retirement or disability or (iii) on the date of the optionee's termination of directorship for cause. No option awards will vest after the optionee's termination of directorship for any reason, including voluntary or involuntary discharge, disability or retirement, except in the event of a change in control, dissolution or liquidation of our company, or death of the grantee, in which case all outstanding unvested options will automatically vest in full. Outstanding option awards do not receive dividends prior to exercise and are non-voting. No option awards were granted to directors during the three years ended December 31, 2012.

Leadership Structure

Our board currently separates the roles of chairman and CEO, with the chairmanship held by an independent director. Our board believes the separation of roles, while not required, enhances the board's oversight of and independence from management, as well as the ability of the board to carry out its roles and responsibilities on behalf of stockholders. This leadership structure also allows our CEO to focus more of his time and energy on operations while providing him more of an opportunity to learn from the experience and perspectives of our chairman and other independent directors.

Our chairman, together with our CEO and with input from our other directors, oversees the development of board and board committee calendars and meeting agendas, leads the discussion at board meetings, and acts as the primary liaison between our CEO and board. Our chairman is also available to speak on behalf of our board under certain circumstances and performs other functions and responsibilities as required under our Board of Directors' Guidelines or as directed by the board from time to time.

Our Board's Role in Risk Oversight

Our board recognizes how critical effective risk oversight is in our success and believes that its current leadership structure and operating style, with a board composed of primarily independent directors, its chairmanship separated from our CEO, and experienced executive officers who participate regularly in board and audit committee meetings, enhances risk oversight. Enterprise risks are identified and prioritized by management and reported to our full board on a quarterly basis or as otherwise appropriate, while compliance and financial risks are overseen by our audit committee. Our compensation committee considers enterprise risks within the design of our compensation programs to ensure these programs do not encourage excessive risk taking. Our chairman and other independent directors, themselves all experienced business professionals, are active in raising enterprise risk issues for board consideration and challenging management to address their concerns and see their perspective on these issues.

Stock Ownership and Pledging Guidelines

In 2010, our board adopted a standard for ownership of our common stock by our executive officers and directors for purposes of improving the alignment of interests of these individuals and those of our stockholders. Each of our directors is expected to own shares of our common stock equal to three times the annual cash retainer. In early 2013 this standard was amended to limit the pledging of our stock held by our executive officers and directors. For purposes of measuring our stock ownership guidelines, any shares pledged shall be excluded from each executive officer's or director's ownership. For a discussion of ownership standards for our executive officers and our new pledging standard, see "Analysis and Setting of Executive Compensation" section of the Compensation Discussion and Analysis (CD&A) in this proxy statement.

Hedging Transaction Policy

In 2010 our board adopted a policy which prohibits our employees and directors from entering into transactions to hedge or offset any change in the market value of our common stock.

Board Committees and Meetings

The current standing committees of our board are listed in the table below. Each of these committees has a written charter approved by our board. A copy of the charters can be found on our website at www.capstead.com by clicking Investor Relations, Accept and Committee Charters. The members of these committees and the number of meetings held during 2012 are identified in the table below, and a description of the principal responsibilities of each committee follows.

	Audit	Compensation	Executive	Governance & Nomination
Jack Biegler	X	X	Chair	
Michelle P. Goolsby				X
Gary Keiser	Chair	X		
Paul M. Low				X
Christopher W. Mahowald				X
Michael G. O Neil	X		X	Chair
Mark S. Whiting		Chair		
<i>Number of Meetings</i>	5	3	1	2

Our *audit committee* is comprised of three independent directors. This committee is responsible for the appointment, compensation, retention and oversight of our independent registered public accounting firm; and it provides assistance to our board in fulfilling their oversight responsibilities to our stockholders, potential stockholders and the investment community relating to:

The integrity of our financial statements and financial reporting process, including our systems of internal accounting and financial control and disclosure controls and procedures;

Our independent registered public accounting firm's qualifications and independence;

Our compliance with legal and regulatory requirements; and

The performance of our internal audit function (outsourced to a third party service provider) and our independent registered public accounting firm.

Our board has determined that Messrs. Biegler, Keiser and O Neil are audit committee financial experts as defined in the applicable rules and regulations of the Securities Exchange Act of 1934, as amended. All members of our audit committee meet our Board of Directors' Guidelines for independence of audit committee members, have financial management experience and are financially literate as required by the NYSE Listed Company Manual. Our audit committee charter limits the number of audit committees on which committee members may serve to no more than two other public companies, unless our board determines such simultaneous service would not impair the ability of such member to effectively serve. No member of our audit committee currently serves on the audit committee of another public company.

Our *compensation committee* is comprised of three independent directors. Our board has determined that Messrs. Biegler, Keiser and Whiting are independent in accordance with NYSE listing standards and Item 407(a) of the SEC Regulation S-K. All of our compensation programs are administered under the direction of this committee. This committee is responsible for overseeing our compensation programs including:

Reviewing and approving corporate goals and objectives relevant to our CEO's compensation;

Evaluating our CEO's performance in light of those goals and approving compensation consistent with such performance;

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Approving base salaries, annual incentives and other programs and benefits for our executive officers other than our CEO;

Approving compensation programs and benefits for our other employees;

